

The Effect of Oil Price Uncertainty on Food Price in South Africa

Authors : Goodness C. Aye

Abstract : This paper examines the effect of the volatility of oil prices on food price in South Africa using monthly data covering the period 2002:01 to 2014:09. Food price is measured by the South African consumer price index for food while oil price is proxied by the Brent crude oil. The study employs the GARCH-in-mean VAR model, which allows the investigation of the effect of a negative and positive shock in oil price volatility on food price. The model also allows the oil price uncertainty to be measured as the conditional standard deviation of a one-step-ahead forecast error of the change in oil price. The results show that oil price uncertainty has a positive and significant effect on food price in South Africa. The responses of food price to a positive and negative oil price shocks is asymmetric.

Keywords : oil price volatility, food price, bivariate, GARCH-in-mean VAR, asymmetric

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